

Message Text

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R 281455Z JUN 75

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TO SECSTATE WASH DC 7760
INFO AMEMBASSY ANKARA
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PASS TREASURY FOR SYVRUD AND GRIFFIN

E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: INVISIBLES COMMITTEE, 115TH SESSION

REFS: (A) DAF/INV/75.30

(B) DAF/INV/75.32

(C) DAF/INV/75.26

(D) IME(75)6

(E) DAF/INV/75.31

(F) LIBERALIZATION OF INTERNATIONAL CAPITAL

MOVEMENTS: JAPAN (OECD 1968)

1. AT SESSION JUNE 16-18, 1975, INVISIBLES COMMITTEE (IC) NOTED APPOINTMENT OF NEW VICE CHAIRMAN (TANNER-US), HELD FOLLOW-UP DISCUSSION ANNUAL SPECIAL SESSION ON INWARD DIRECT INVESTMENT, TENTATIVELY APPROVED CONTINUATION OF DEROGATION TO OECD CAPITAL MOVEMENTS CODE (CMC) BY AUSTRIA, CONDUCTED THIRD EXAMINATION OF JAPANESE RESERVATIONS IN CMC, AND MADE PRELIMINARY FINDING THAT FRENCH COMPLAINT CONCERNING COLLECTIVE RATE AGREEMENTS IN CROSS-CHANNEL VEHICLE TRAFFIC DOES NOT FALL WITHIN SCOPE OF OECD INVISIBLES CODE. SEVERAL TIMES DURING SESSION SCANDINAVIAN AND JAPANESE MEMBERS MADE LENGTHY STATEMENTS TO EFFECT THAT GOALS OF CMC INCREASINGLY INAPPROPRIATE UNDER CURRENT UNSTABLE INTERNATIONAL ECONOMIC CONDITIONS. END SUMMARY.

2. THIRD EXAMINATION OF JAPANESE RESERVATIONS TO CMC: FULL DAY EXAMINATION OF JAPANESE RESERVATIONS RESULTED IN LITTLE PROGRESS TOWARD FURTHER LIBERALIZATION FOR INTERNATIONAL CAPITAL TRANSACTIONS IN JAPAN. ONE RESERVATION, (LIST A, V/A1) WAS REMOVED, LEAVING SEVEN LIST A AND NINE LIST B ITEMS STILL COVERED BY RESERVATIONS. JAPANESE EXPERTS EXPANDED ONLY SLIGHTLY ON ARGUMENTS LISTED IN REF A SUPPORTING CONTINUATION OF RESERVATIONS. IC CONCLUDED THAT FOR MOST PART LIMITED OFFICIAL USE

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JAPAN'S RESERVATIONS BEING RETAINED FOR PRECAUTIONARY REASONS. EMPHASIS WAS CENTERED ON EXTENT TO WHICH JAPAN RETAINS CONTROLS ON BOTH INFLOWS AND OUTFLOWS AT SAME TIME, TREATING ONE OR THE OTHER LIBERALLY AS BALANCE OF PAYMENTS AND DOMESTIC ECONOMIC SITUATION DICTATES. SECRETARIAT POINTED OUT THAT OF THREE POSSIBLE GROUPINGS OF OECD COUNTRIES (THOSE WITH SIX OR FEWER RESERVATIONS, THOSE WITH TEN TO TWENTY

RESERVATIONS, AND THOSE WITH MORE THAN TWENTY) JAPAN UNFORTUNATELY FALLS IN LATTER GROUP. MOST MEMBERS OF IC DEPLORED LACK OF PROGRESS TOWARD LIBERALIZATION IN JAPAN, SUGGESTING THAT BASIC ATTITUDE IN JAPAN REMAINS RESTRICTIVE. AS MAJOR WORLD ECONOMIC POWER, JAPAN SHOULD MOVE FURTHER AND FASTER IN LIBERALIZING ITS INTERNATIONAL TRANSACTIONS. AUSTRIAN AND US EXPERTS STRONGLY CRITICISED PRECAUTIONARY NATURE OF CONTROLS WHICH COVER BOTH SIDES OF LARGE LIST OF TRANSACTIONS. ON OTHER HAND, SEVERAL SCANDINAVIAN EXPERTS SUGGESTED IT WAS APPROPRIATE FOR COUNTRIES, ESPECIALLY SMALLER ONES, TO MAINTAIN PRECAUTIONS. AUSTRIAN AND US EXPERTS RESPONDED THAT PRUDENCE IS MAINTAINED BY AVAILABILITY OF DEROGATIONS, THAT CONTROLS COULD ALWAYS BE RAPIDLY REINSTALLED WHERE REALLY ESSENTIAL, BUT THAT SOME PERIOD OF GREATER FREEDOM AT LEAST SHOULD OCCUR BETWEEN PERIODS OF ACTUAL IMPLANTATION OF CONTROLS. US EXPERT URGED RENEWED EFFORT TO REMOVE RESERVATIONS ON

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INFO AMEMBASSY ANKARA

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TRANSACTIONS NOT CURRENTLY BEING ACTIVELY RESTRICTED. SECRETARIAT WAS INSTRUCTED TO PREPARE REPORT EXAMINING IN GREATER DETAIL THE ECONOMIC BASIS FOR JUSTIFICATION OF EACH OF SIXTEEN REMAINING JAPANESE RESERVATIONS. US EXPERT REQUESTED THAT FINAL REPORT GIVE GREATER ATTENTION TO ACTUAL OPERATIONS OF JAPANESE CONTROLS. (FYI: MISSION WOULD APPRECIATE SUGGESTIONS FROM WASHINGTON ON WAYS TO COUNTER ARGUMENTS IN REF A AND TO URGE JAPANESE TO MOVE MORE RAPIDLY AWAY FROM MASSIVE SET OF CONTROLS ON INTERNATIONAL CAPITAL TRANSACTIONS.)

3. SECOND EXAMINATION OF AUSTRIAN DEROGATION TO CMC: ALTHOUGH FINDING ECONOMIC JUSTIFICATION FOR CONTINUATION OF AUSTRIAN DEROGATION EXTREMELY WEAK, IC COULD NOT AGREE TO A FINDING THAT CONTINUATION OF DEROGATION WAS UNJUSTIFIED. PROPOSED LANGUAGE FOR IC RECOMMENDATION TO COUNCIL WILL BE DRAFTED BY SECRETARIAT, TO BE REVIEWED BY MEMBERS PRIOR NEXT IC MEETING. MAJORITY OF IC AGREED THAT AUSTRIAN SITUATION WAS MOST CLEAR-CUT CASE IN RECENT YEARS IN WHICH ECONOMIC SITUATION OF A COUNTRY NO LONGER JUSTIFIED MAINTAINING DEROGATION. IC PUSHED ESPECIALLY HARD FOR RESPONSES TO QUESTIONS RAISED IN REF B REGARDING ECONOMIC BASIS FOR CONTINUED

DEROGATION ON INWARD DIRECT INVESTMENT AND PURCHASES OF AUSTRIAN LISTED SHARES. AUSTRIAN CENTRAL BANK REP (HINES) DID NOT RESPOND USEFULLY TO THESE QUESTIONS AND REFUSED TO ACCEPT JUDGMENT OF SECRETARIAT AND MAJORITY OF IC THAT ECONOMIC CONDITIONS BOTH DOMESTICALLY AND INTERNATIONALLY HAD CHANGED SUFFICIENTLY TO PERMIT FURTHER RELAXATION IN CONTROLS COVERED BY DEROGATION. HIS RESPONSE TO SUGGESTIONS THAT IT MADE LITTLE SENSE TO HAVE CONTROLS ON BOTH OUTWARD AND INWARD FLOWS AT SAME TIME (E.G., ESPECIALLY IN COMMERCIAL CREDITS) WAS THAT INTERNATIONAL ECONOMIC SITUATION SO UNSTABLE THAT EMERGENCIES COULD DEVELOP QUICKLY. THIS REQUIRED USE OF OUTFLOW CONTROLS AT ONE POINT FOLLOWED PERHAPS BY QUICK SHIFT TO INWARD CONTROLS. HE INSISTED THAT AUSTRIA LIMITED OFFICIAL USE

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NEEDED PRECAUTIONARY PROTECTION IN EVENT OF SUCH EMERGENCIES. US, SWISS, AND GERMAN EXPERTS EMPHASIZED THAT DEROGATION PROCESS IN CMC GIVES COUNTRIES ADEQUATE PROTECTION. THEY URGED AUSTRIAN AUTHORITIES TO CONSIDER WITHDRAWING CONTROLS ON THOSE CAPITAL MOVEMENTS NOT CURRENTLY BEING ACTIVELY CONTROLLED. DURING IC EFFORT TO DRAFT CONCLUSION ON AUSTRIAN CASE, AUSTRIAN CENTRAL BANK REP CONTINUALLY INTERRUPTED PROCEEDINGS TO ASK THAT LANGUAGE BE SOFTENED OR DELETED WHENEVER IT SUGGESTED THAT EVIDENCE NOT ADEQUATE TO SUPPORT CONTINUED JUSTIFICATION OF DEROGATION. THIS PERFORMANCE WAS SURPRISING SINCE IT GENERALLY CONCEDED THAT IC, BEING COMPOSED OF INDEPENDENT EXPERTS APPOINTED BY COUNCIL, SHOULD BE ALLOWED TO DRAFT ITS CONCLUSIONS WITHOUT PRESSURE FROM INTERESTED GOVERNMENT REPS. SINCE IC COULD NOT AGREE ON REASONABLE SET OF CONCLUSIONS IN PRESENCE OF AUSTRIAN BANK REP, FINAL DRAFTING OF CONCLUSIONS WAS LEFT TO SECRETARIAT.

4. INWARD DIRECT INVESTMENT: FOLLOW-UP DISCUSSION OF ANNUAL SPECIAL SESSION ON INWARD DIRECT INVESTMENT (APRIL, 1975) FOCUSSED ON QUESTIONS PAO 22 REF C.

(A) MOST REPS AGREED THAT COMPILATION OF INFORMATION CONCERNING ADMISSION OF FOREIGN DIRECT INVESTMENT INTO MEMBER COUNTRIES SHOULD BE CONTINUED AND UPDATED ON REGULAR BASIS, USING FORMATION IN REF D. FRG AND UK EXPERTS AGREED REF D WAS USEFUL DOCUMENT, BUT THOUGHT UPDATING SHOULD NOT BE TOO AMBITIOUS, AND SHOULD NOT BE CARRIED OUT MORE THAN ONCE A YEAR. US EXPERT SUGGESTED INFORMATION SUCH AS CONTAINED IN REF F ON OPERATION OF CONTROLS SHOULD BE INCORPORATED IN UPDATING.

(B) VIEWS WERE MIXED AS TO USEFULNESS OF CONTINU-
ING TO INCLUDE DISCUSSION OF "SPECIAL CASES". UK AND
FINNISH EXPERTS PREFERRED TO SEE THIS PRACTICE DROPPED.
ON OTHER HAND, SECRETARIAT BELIEVED IT WOULD BE
UNFORTUNATE TO ABANDON THIS SOURCE OF INFORMATION,
SINCE ONLY OTHER SOURCES WOULD BE THROUGH UNOFFICIAL
CHANNELS.

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(C) AS TO PROBLEM OF IDENTIFICATION OF ORIGINAL
INVESTOR, IC AGREED THAT IT WOULD BE HARD TO SEE HOW IC
COULD CONTRIBUTE ANYTHING USEFUL. SECRETARIAT
INDICATED QUESTION MAY BE MORE APPROPRIATE FOR COMMITTEE
ON FINANCIAL MARKETS. IC MIGHT PLAY GREATER ROLE IN

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IDENTIFICATION OF OPEC (GOVERNMENT) INVESTMENT.

(D) VIEWS DIVERGED ON EXTENT TO WHICH IC SHOULD LOOK ONLY AT ACTUAL MEASURES WHICH APPEAR TO BE IN CONFLICT WITH CMC, OR ALSO REVIEW PROPOSED ACTIONS IN MEMBER COUNTRIES WHICH MIGHT CONFLICT WITH CMC. IN PAST, IC HAS HAD SOME IMPACT ON DEVELOPMENTS DURING PRELIMINARY STAGES (MAINLY IN SMALLER COUNTRIES) WHEN PROPOSALS FOR INCREASED RESTRICTIONS WERE UNDER CONSIDERATION BY GOVERNMENTS OR LEGISLATURES.

(E) IC DECIDED THAT FURTHER DISCUSSION ON PAYMENTS CHANNELS (E.G., COMPATIBILITY BETWEEN CMC AND OFFICIALLY IMPOSED CONDITIONS REGARDING FOREIGN AND LOCAL FINANCING OF INWARD INVESTMENT) SHOULD BE HELD IN ABEYANCE FOR THE TIME BEING.

(F) IC AGREED THAT SERIOUS EFFORT SHOULD BE MADE TO REDRAFT AND UPDATE MORE UNIFORM FORMULATION OF MEMBER COUNTRY RESERVATIONS (AND DEROGATIONS) ON DIRECT INVESTMENT ITEMS, ALTHOUGH NO SPECIFIC PROJECT OR APPROACH WAS PUT FORWARD.

(G) REGARDING OPEC DIRECT INVESTMENT IN MEMBER COUNTRIES, US EXPERT INDICATED DISAPPOINTMENT AT LACK OF SPECIFICITY AND HARD INFORMATION IN REF C. SECRETARIAT WAS DIRECTED TO PREPARE MORE COMPLETE DOCUMENT FOR NEXT IC MEETING.

5. COLLECTIVE RATE AGREEMENTS IN CROSS-CHANNEL VEHICLE TRAFFIC: IC DECIDED THAT QUESTION RAISED IN COMMUNICATION FROM FRENCH DELEGATION REGARDING RECENT UNILATERAL BRITISH ACTION ON CROSS-CHANNEL VEHICLE TRAFFIC (REF E) DOES NOT LIE WITHIN SCOPE OF OECD INVISIBLES CODE. UK MONOPOLIES COMMISSION HAD DIRECTED THAT UK UNDERTAKINGS IN CROSS-CHANNEL ACCOMPANIED VEHICLE TRAFFIC WOULD NO LONGER BE AUTHORIZED TO TAKE LIMITED OFFICIAL USE

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PART IN COLLECTIVE RATE ARRANGEMENTS. IN RESPONSE TO FRENCH INSISTENCE THAT MATTER LIES WITHIN COMPETENCE OF CODE, UK EXPERT INDICATED THAT UK ACTION IN NO WAY INTERFERED WITH UNRESTRICTED OPPORTUNITY BY RESIDENTS OF ONE MEMBER STATE TO AVAIL THEMSELVES OF, AND PAY FOR, ALL SERVICES IN CONNECTION WITH INTERNATIONAL MARITIME TRANSPORT WHICH IS OFFERED BY RESIDENTS OF ANY OTHER MEMBER STATE. UK EXPERT STRESSED THAT INTERNATIONAL COMPETITION WAS NOT BEING INTERFERED WITH, BECAUSE IT WAS AMONG THE BRITISH UNDERTAKINGS THAT MONOPOLY SITUATION EXISTED. MOST MEMBERS OF IC AGREED WITH UK POSITION THAT THIS ISSUE WAS NOT WITHIN THE SCOPE AND MEANING OF THE CODE. SECRETARIAT WAS DIRECTED TO EXPRESS THIS VIEW IN AN ANNEX TO DRAFT MINUTES OF PRESENT IC SESSION.

6. ATTACKS ON OECD CAPITAL MOVEMENTS CODE (CMC): THROUGHOUT EXAMINATION OF AUSTRIAN DEROGATIONS, AND PERIODICALLY DURING EXAMINATION OF JAPANESE RESERVATIONS, A NUMBER OF IC EXPERTS SPOKE OUT FROM TIME TO TIME ON WHAT THEY BELIEVE TO BE INADEQUACY OF CMC UNDER CURRENT INTERNATIONAL CONDITIONS. THESE MEMBERS STRESSED IDEA THAT LIBERALIZATION OF INTERNATIONAL TRANSACTIONS IN CAPITAL MOVEMENTS WAS NOT, AND SHOULD NOT BE CONSIDERED A GOAL IN ITSELF. IN DIFFICULT TIMES SUCH AS THESE, COUNTRIES NEED TO TAKE PRECAUTIONS

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VIS-A-VIS POSSIBILITY OF MASSIVE AND DESTABILIZING INTERNATIONAL CAPITAL FLOWS. THUS, IN MOST CASES COUNTRIES SHOULD BE FREELY ALLOWED TO MAINTAIN PRE-CAUTIONARY RESERVATIONS. OF TWELVE EXPERTS ON IC, THOSE FROM FINLAND, SWEDEN AND JAPAN WERE ESPECIALLY OUTSPOKEN IN CRITICISM OF CMC. (FYI: PLEASE PROTECT FROM FOREIGN DISCLOSURE IN ORDER TO PRESERVE INDEPENDENT NATURE OF DISCUSSIONS IN IC). US EXPERT LED RESPONSE URGING THAT DEROGATION PROCEDURE UNDER CMC ALREADY GIVES COUNTRIES ADEQUATE DEGREE OF PROTECTION IN EVENT OF MASSIVE AND DESTABILIZING CAPITAL MOVEMENTS. URGED THAT DURING PERIODS WHEN CONTROLS NOT IN USE, IT MADE LITTLE SENSE TO MAINTAIN CONTROLS AND RELATED DEROGATIONS TO OECD CODE. COUNTRIES COULD ALWAYS REINSTATE CONTROLS WHEN NEEDED, NOTIFY OECD, AND REQUEST DEROGATION. IF IC DISAGREED WITH NEED FOR DEROGATION, DECISION COULD ALWAYS BE REVERSED IN COUNCIL WHERE COUNTRIES HAVE ULTIMATE PROTECTION SINCE COUNCIL WOULD HAVE TO VOTE UNANIMOUSLY THAT A COUNTRY'S DEROGATION WAS NOT JUSTIFIED. (FYI: IN DISCUSSIONS WITH SECRETARIAT MEMBERS BERTRAND, SCHLEPEGRELL AND HACKETT AFTER IC MEETING, THEY EXPRESSED CONCERN WITH LACK OF UNDERSTANDING ON PART OF CRITICS OF CMC AS TO REAL PURPOSES AND SCOPE OF CMC. TO RECTIFY THIS PROBLEM, SECRETARIAT PLANS TO REVISE AND UPDATE EARLIER DOCUMENT THIS QUESTION FOR DISCUSSION AT SEPTEMBER IC MEETING, BERTRAND ESPECIALLY BEING ANXIOUS TO MAKE MAJOR EFFORT TO CLARIFY PURPOSE AND GOALS OF CMC TO LESS LIBERAL EXPERTS ON IC.

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Message Attributes

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